THE REAL CAUSE

OF THE

High Price

OF

GOLD BULLION.

THE Question to be decided upon the REPORT of the Committees of the two Houses of Parliament, seems of the greatest Importance to the Empire that was ever agitated upon a financial subject.

The imposing upon the Bank a Restriction in 1797, suspending Cash Payments, was not an act of deliberation and choice, but of irresistible necessity. The measures now to be taken are to be the result, not of necessity, but of mature deliberation; to be founded on the principles, not of temporary expediency, but of permanent policy.

It seems, that whatever shape the discussion may take, whatever faces it may present, whatever schemes it may open, the decision must be ultimately formed on one of the two following principles.

1.—Either that the amount of our circulation is to be measured by its adequacy to all the wants, demands, and interests of the Kingdom, arising from the whole of its income taken in the most extended sense, and that a system is to be ever acted upon for keeping its amount fully adequate to all these purposes;—or,

2.—That a system of contracting our Currency is to be acted upon for the sole purpose of bringing gold

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to mint price, and for keeping it invariably at that price by alternate contractions and augmentations of the issue of Bank Notes, according to the variations in the market price of gold, without reference to the wants, interests, or income of the country.

There could not possibly be any hesitation which of these two principles should be the foundation of our national policy, did not some violent and predominant circumstance interfere.

And I conceive this circumstance is the following: that as we have a Paper Currency, unless we combine and unite it, with a fixed standard of intrinsic value, it may from excess be depreciated to any possible extent. And that the preservation of this union in value is so essential, that all conveniences, all utilities attending a full and redundant currency, are to be sacrificed to it.—

Having thus opened my veiw of the chief principles on which the national decision upon the question of our Currency, will turn, I proceed to the object of this Paper, which is to remove some important errors and misconceptions which seem to have made an impression, a false impression on the public mind.—

The two great points upon which the discussions on the restriction of our currency have turned, are the nature of our money standard, and the cause of *the Rise* in the price of gold.

With respect to the first point, on one part it has been contended, that our standard was some ideal pound sterling, of an abstract theoretical nature, which formed our money unit. On the other part it is contended, that our money standard is the mere *Quantity* of gold of a certain *purity*, which quantity and purity are ascertained by law, and form the Mint standard.

The first of these explanations of the money standard

is too speculative for any practical purpose, supposing it not to be completely visionary; the second is defective, from being an *incomplete* enumeration of the ingredients by which our money standard is fixed.

Blackstone lays down truly, that with respect to coinage, three things are to be considered,—the *Materials*, the *Impression*, the *Denomination*. Now it is *Denomination*, or *the Rate of Value for which Coin is to pass current*, by which the money standard is ultimately formed. The weight, and the purity of the metal of which coin is to be composed, being fixed, *the value for which it is to pass current* must then be added; and when these are all decided by legal authority, a Mint Indenture is framed accordingly, and a Royal Proclamation issues thereupon, describing the Coins which are to be circulated, and fixing the rates at which they are to pass current.—

The Mint Indentures therefore, and the Proclamations thereupon, fix our money standard.

According to these Indentures and Proclamations, the Gold Standard of Value is 3*l.* 17*s.* 10½*d.* the ounce Troy at 22 carats fine.

And a Sovereign is valued at 20 shillings, being equivalent to 5 *dwts.* $3\frac{2740}{10000}$ *grs.* of Standard Gold, at the Mint Price of 3*l.* 17*s.* 10½*d.* an ounce. This Sovereign is our Gold Pound Sterling, and the Bank Pound Note represents this Pound Sterling, the Gold of which is valued at 3*l.* 17*s.* 10½*d.* an ounce.

The *Pound Sterling*, thus formed under the law, and ascertained by Mint Indenture and Proclamation, is our *Money Unit*, the foundation of all our money of account, and the basis of all our money transactions.

It is the representation of the gold Sovereign, coined of sterling standard gold, of the price of 3*l.* 17*s* 10½*d.* an ounce Troy.

It does not represent gold of 3*l.* an ounce, or 3*l.* 15*s.*

an ounce, or 4*l.* an ounce, or 5*l.* an ounce,—but gold of 3*l.* 17*s.* 10½*d.* an ounce only.

Thus is the character of our Gold Standard fixed, and it is of course *invariable*, until the Sovereign and the Law which formed it, shall alter it.

The Government and the Law may alter the Standard of Gold, as it has recently done the Standard of Silver: but so long as our present Standard remains, the One Pound Sterling is equivalent to 5 *dwts.* $3\frac{2740}{10000}$ *grs.* of Gold, at the price of 3*l.* 17*s.* 10½*d.* an ounce, and of this standard the One Pound Bank Note is the counterpart, and passes current in the market at the same value.

Having thus explained the nature of our *Money Unit*, or *Pound Sterling*, and shewn it to be fixed on a triple basis of *invariable quality*, as to *Weight*, *Fineness*, and *Denomination*; and having shewn that our Bank Note is its counterpart, I beg leave to refer the reader, if he has any doubts on the subject, to the Statutes, to the Mint Indentures, and Proclamations upon them.

And if the character of the Standard I have thus given be adhered to in all our considerations, the confusion and perplexity which attends the discussions on our Currency, will be greatly alleviated. These have very much arisen from considering our Standard as merely relating to the *quantity* and *purity* of the Gold contained in our Coin, and from not including its *Denomination*, which alone ascertains *its legal rate of value in currency*; and renders its value fixed, in contradistinction to Bullion, the value of which is variable with the market.

Having explained the nature of our Money Standard, I proceed to shew the misconceptions which have arisen with respect to the *cause of the rise* in the market price of gold.—

The Bullion Report of the House of Commons of 1810, was pleased to state at its very outset, *that*

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the prices of all commodities had risen, and gold appeared to have risen in price only in common with them. If this effect is to be attributed to one and the same cause, that *cause can only be found in the state of the Currency of this country.* And it afterwards (p. 17.) reasons in the following manner: and *that in the event of prices being raised in one country by an augmentation of its circulating medium, whilst no similar augmentation in the currency of a neighbouring country has led to a similar rise of prices, the currencies of those two countries will no longer continue to bear the same relative value to each other as before.* And then the Reporters having formed all their reasonings upon these two assumptions, conclude, that the whole rise of the price of gold, and the fall of exchanges, were solely ascribable to *an excess in the Issue of Bank Notes.*

Here then we see the rise of prices accounted for per saltum at once. An excessive Issue of Notes is stated not only to be the cause, but the *sole cause*— and of course the Leaders of that Committee having presumed this point, their sole business was to prove it, if they could. They of course naturally avoided any thing like a fair inquiry into any other event or circumstance which might influence the question, and clash with their prejudice; but it was not to have been expected, that they should not have investigated even the very fact they asserted; viz. the existence of an Excess of Issue, but preferred taking it for granted, without any proof at all.

Now it seems to me—that when an excessive Issue of Notes was proclaimed as the *sole cause* of the extraordinary rise in the price of gold, the Committee were bound to *prove that Excess.*

They were bound to have shewn the quantity of Coin and Bank Notes which were in circulation before the

the Restriction Acts.—They were bound to prove what was the population of Great Britain at the commencement of the War, and what in 1810.—They were bound to shew what was the amount of taxes at the commencement of the War, and what in 1810.—They were bound to shew what was the amount of sums levied before the War, and what in 1810.—They were bound to shew what was the state of Imports and Exports, and Commerce, and Navigation in general at the commencement of the War, and what in 1810.

And before they should have resolved, that Excess of Issues were the *sole* cause of the rise of the price of gold, they should have stated the different results of the inquiries in the above mentioned points,—and given leave to every impartial man to make his judgement accordingly.

What particular reasons prevented the Committee from taking this impartial line of inquiry, and induced them to limit their views to one sole object, when so many important objects naturally obtruded themselves for consideration, is not for me to canvas. It is trusted however that the present Committees will not adhere to a line so culpable, but emancipating themselves from the trammels of prejudice, will enter into every view of the question, and face every difficulty which may present itself.

Let us advert, for instance, to the subject of our population as it stood in 1790, and as it stands at present.—In 1790, the population of Great Britain was 10,242,000; in 1811, it was 12,358,000; and if it has increased to this day in the same ratio with its increase from 1801 to 1811—the total population of Great Britain at the present day exceeds the population of 1790 by about 3,000,000.

Let us advert also to the annual amount of income which

which the present population annually expends. Supposing the income of Great Britain was equal in 1790 to 10*l.* per annum per head, the income of Great Britain computed in a population of 10,242,000, was 102,420000*l.* but as prices were doubled in 1810, the income must have nominally doubled also; and the annual income of Great Britain in 1810 as well as at present (as the prices have not since increased) must be 204,840,000*l.*; to which must be added, an income at 20*l.* per head, for our increased population of 3,000,000, so that our present annual income should be, upon these data, 264,840,000*l.*

Let us advert again to the state of our taxes. The produce of these in 1790, before the war, amounted annually to about 17,000,000*l.*; in 1810, they amounted to 64,000,000*l.* Is it possible that such an immense increase could have been possibly raised without an increase of income, increase of prices, and increase of circulating medium?

Let us further recollect, that the whole sum levied in 1790, amounted to a little more than 19,000,000*l.*; whereas the whole amount raised in 1810, exceeded 97,000,000*l.*—How was it possible that such a sum could have been levied on such a national income as 102,000,000*l.* the computed amount in 1790? It must have been absolutely impossible to have raised any thing like such a sum on so narrow a basis.

Nor do I think that we can refuse to reflect, that if in the course of 21 years, from 1794 to 1815, the incredible sum of 1,684,740,000*l.* was raised on the nation, it must have necessarily demanded a very abundant circulation to have afforded a possibility for such enormous levies.

It will also be brought forward into view, that our Exports and Imports amounted, in 1797, as follows:

IMPORTS

IMPORTS.		EXPORTS.
£.		£.
23,435,000	- - - -	17,688,000
	In 1819,	
61,190,000	- - - -	40,157,000

In the next place, I find from the late Lord Liverpool's Treatise upon Coins, that his Lordship estimates the value of the gold coin circulating in his Majesty's dominions, at 30 millions; and if we allot 5 millions to Ireland, the gold coin circulating in Great Britain before the Restriction Act, was 25 millions, and about 10 millions of Bank Notes, which I believe exceeds the amount of Bank Notes and Coin now in circulation or in the Bank. I have no precise data for knowing or conjecturing what was the amount of private bank notes in circulation before the Bank Restriction; but it is said to amount to upwards of 25 millions at present;—so that whatever increase there is in our circulating medium, it must arise, according to this statement, from the increased circulation of the private banks, and not from the increased issues of the Bank of England. The Committee of 1810 adverted indeed to the state and to the issues of the private banks, which appeared to have increased to the amount of 3,000,000*l*. within a short period antecedent. But they give us not any estimate of their amount at the time nor of their amount before the Restriction Act. But surely when they decided in limine that the rise of Gold and the fall of Exchanges were solely attributable to excessive Issues of Bank Paper, they should have entered into the subject more minutely—they should have compared the whole circulation before that act, with the whole circulation in 1810; and then, after computing the increased income of the kingdom, and the augmented demand for currency from increased taxes, supplies and commerce, it should have drawn a regular comparison

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between the state of things at the commencement of the war, and the state of things in 1810; and have shewn what was the amount of excess of currency in the latter period, making a just allowance for the difference of the necessary demand for currency in the two periods. This was, however, omitted to be done: nothing of the kind was attempted; and excess of issue, the stalking-horse of the day, was *assumed*, but never *proved*. We feel confident however, that our satisfaction upon this point will not be long delayed, when we contemplate the abilities and impartiality of those who are employed in the present investigation.

It is certainly to be acknowledged, as a general position, that dandis datis money prices will be in an inverse ratio to the quantity of circulating medium: but if the quantity of value to be circulated increases, and the quantity of circulating medium only increases proportionably, prices will not be affected at all.

It is now then satisfactorily demonstrated, that the circulation in 1810, so far from being excessive, was to an almost incredible degree *less* in proportion to the taxes to be paid and the income circulated, than in 1790, before the war. For—

In 1790, the taxes were about 17 millions, the currency in which they were paid, 25 millions in Gold, and 10 millions in Bank Notes.—In 1810, the taxes amounted to above 64 millions, and the currency by which they were payable consisted of 23 millions of Notes, and about 7 millions of Gold.—Thus in 1790, taxes were to currency as 17 to 35; when in 1810, taxes were to circulation as 64 to 32.

If we take in the private Bank Note circulation, and extend our comparison to the whole income of Great Britain,—suppose 10 millions the amount of private Notes in 1790, and 25 millions the amount of private

Notes in 1810; and suppose the whole income in 1790, 100 millions, and in 1810 about 250 millions; the whole circulation in proportion to the whole income in 1790, was 45 millions to 100 millions; in 1810, 52 millions to 250 millions.

Now if the Committee of 1810 had gone into these views and comparisons, the result of the facts would have appeared so glaringly contradictory to their assumed principle—that the high price of Gold was created by the excessive issue of paper—that they could not have faced the public, in venturing such an assertion.

I am induced therefore most firmly to believe, that the increase of prices generally, and of Bullion in particular, is owing, by no means solely to an excess of Paper Circulation, which in fact has never taken place, but to the great increase of taxation, which every man feels and laments.

Taxes increase prices always,—and, as every person on whom a tax falls, endeavours to shift the burthen of it from himself on others, and to live as well after paying the tax as he did before, taxes increase prices in a double ratio to the amount of the taxes. If then we pay a revenue of above 56 millions a year, including the expenses of collection, instead of 19 millions, and if these 56 millions act upon prices in a double ratio, will not this circumstance as fully account for the increase of prices alone, as the excess of issues alone, had it been proved? And yet the Reporters of 1810 were satisfied to treat the point of taxation with entire indifference, as if it was totally foreign and irrelevant to the subject of their inquiry, and had no connexion at all whatever with the rise of prices.

The omission of investigating the effect of taxation upon prices, was injurious to the character of the Report of 1810. But it would be much more to be lamented

lamented, if a similar omission were to characterise the present inquiries, when our situation is to be considered in reference to the state of the Continent now resuming the ordinary operations and returning in their dealings to the ordinary level of peace.

When before the war our net taxes amounted to about 17,000,000*l.* we were nearly upon a level in that respect with the states of the Continent, which were taxed nearly in the same ratio; the general state of prices was nearly the same, and the price of gold about par. But from our immense exertions during the war, our taxes have been raised to such a height, that, excluding our Poors' Rates, we are taxed more than in the proportion of four to one.—The population of France is estimated at near 28 millions, and the amount of its taxes is nearly the same.—The population of Great Britain is about 13 millions, and the taxation above 50 millions, expenses of collection included, which makes a proportion of 4*l.* per head; whereas the proportion in France is only 1*l.* per head—and I believe the same or greater difference against us, exists in the other European States. Now, it is submitted, whether this circumstance alone will not naturally account for the price of Bullion being higher here than on the Continent, even when exchanges and remittances are balanced.—Will it not also account for the price of all other articles being dearer?—Under the circumstance of this superior weight of taxation, and the increased prices resulting from it, will not gold command a greater quantity of commodities in France and on the Continent than in England? I may venture to ask, whether 3*l.* 17*s.* 10½*d.* will not go further in the purchase of all articles in France than 4*l.* in England?—Will not bullion, the article which commands all others, naturally be sent where it can command the greatest

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value in return? Will not this circumstance to a considerable degree, counteract even favourable exchanges? In short, can those two Countries be really upon a level as to money and bullion transactions, whereof the one is taxed at 4*l.* per head, and the other only 1*l.* per head?

There is another consideration, which effects the Mints of the two Countries. It is an understood fact, that a very large proportion of the *Sovereigns* which were issued from the Mint here in 1815, passed into France, and were coined into Louis' at the Paris Mint; a fact so notorious, as to have called for a Legislative Act to meet the evil. As the French take a seignorage in their Coin, of above 7 per cent. they will not be at a loss for similar operations, if we should be absurd enough to bind down hereafter the current rate of our Coin or the price of bullion to the Mint price.

I now then beg leave to return to my quotation from the Bullion Report of 1810. I beg leave to substitute *Increase of Taxes* to *Excess of Currency*, as the cause of the rise of prices—and then I argue with the Report, that in *the event of prices being greatly augmented in one Country by a great increase of taxes, whilst no similar increase has led to a similar rise of prices in a neighbouring Country, the price of gold will no longer continue to bear the same relative value in the two Countries as before.*

If the Committees of Parliament have directed their inquiries to the points I have above suggested, and no longer impute, without proof, the state of the price of gold or the cause of exchange to excess of currency, we shall hope that the real truth will at length be admitted and fairly acted upon.

The measure hitherto suggested for curing the alledged evil, viz. the high price of gold, *is to diminish our*

our circulating medium, so as to effect the reduction of the price of gold conjointly with other articles: but if our prices, as is possible, are really produced by the effect of our taxes, a diminution of the quantity of currency by which they are paid would greatly increase their pressure. Such a measure would be an attempt to lighten a burthen by diminishing the means to bear it: if it tended to diminish the price of bullion, it would increase the effects of our taxes: and if it also led to diminish productive industry, by narrowing the power of exciting it, it would be difficult to calculate to what extent such an evil might spread, and I am at a loss to conceive how it would be compensated.

If it be admitted that prices may be reduced, and facilities for export increased, by a contraction of our circulating medium; it must be admitted, under this proviso, that there shall not be any counteracting circumstances,—and are there none of this description? And is not the great amount of our taxation the strongest principle of counteraction which can be imagined?

Our taxes, including the expenses of collection, are about 55 millions; our circulating medium, including Country Bank Paper, is above 50 millions also; so that whatever be the amount of our income, the taxes on one hand, and the currency on the other, bear nearly the same proportion to it. Now it will be allowed, without dispute, that in the exact proportion as the amount of our currency is diminished, the weight of our taxes will be increased. If our currency is diminished ten per cent. the means of paying our taxes will be diminished ten per cent. And as the object of reducing our currency is to diminish prices, so the tendency of increasing the pressure of our taxes, will be to raise prices. And as our taxes and currency are equal in amount to

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one another, and of course their proportion to our income respectively the same; and as their tendencies are diametrically opposite, and counteractive to each other, it necessarily follows, that whatever effect is produced by a change in one, that change will work a contrary effect in the other. Add to this, that from the nature of man, he will reluctantly submit to any cause which should oblige him to lower prices; whilst he will most eagerly embrace every possible means to counteract the pressure of taxation. So that whatever is adopted to lower prices by diminution of the quantity of currency, produces, in the nature of things, a direct spirit of counteraction, because the lowering of prices augments the pressure of taxation. And in addition to the abstract nature of things, we have also to combat all the passions and interests of mankind, as far as they relate to their ease and profit. Few are ignorant of the law respecting equal and opposite forces acting upon each other in contrary directions, and I trust they will apply it upon this occasion.

If therefore measures are to be resolved upon for forcing a diminution of prices, by a contraction of our currency, I trust the foregoing considerations will at least be adverted to.

Bullion being forced by taxation to a higher level here, than in those countries were taxation less prevails, to suppose that bullion must be upon a par in both (except by the casual and temporary reciprocation of exchanges) when its relation to all commodities is so different, is to suppose that equals and unequals produce the same effects. If 4*l.* can only command a relative quantity of value in Great Britain, whilst 3*l.* 17s. 10½*d.* can command the same quantity of value upon the Continent, the enacting that bullion shall pass always in Great Britain at the same price as

as upon the Continent, would be a similar absurdity as enacting, that the same substance shall have the same properties in the atmosphere and in vacuo. Matter acts differently in different mediums: the weight of the air is different in different altitudes, and the value of money is different in different markets, according to their circumstances, and of course any quantity of bullion will command, ceteris paribus, a greater quantity of valuable commodities in untaxed, or lightly taxed Countries, than in Countries highly taxed.

I see however, that Mr. Ricardo and others, are forming schemes for enabling, or for obliging the Bank to pay their Notes in bullion instead of coin, at mint price, whatever be the market price; as if there were any difference in fact and reality between paying in coin and in bullion, which is weight for weight of the same value as coin. I wonder the futility of all such schemes should not be apparent to every man of common experience and sagacity. Suppose, for instance, the Bank obliged to buy bullion at the market price of 4*l.* and to issue it at 3*l.* 17*s.* 10½*d.* an ounce in exchange for Notes, what is this but to establish a vicious circle to the ruin of the Bank? The bullion merchants hold up their Gold at 4*l.* an ounce, at which the Bank is obliged to buy. They then send in large quantities of Notes to the Bank, and receive bullion for them at 3*l.* 17*s.* 10½*d.* and they then oblige the Bank to re-purchase the same bullion at 4*l.* an ounce. What system could long bear up against the course of such operations? With the disposition to agiotage in our market, the Bank would be an early victim to such a scheme, or to any scheme founded upon a similar false principle.

I understand, however, Mr. Ricardo conceives that his plan is to be acted upon, but that the Bank is not

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to pay, at the opening of his system, at Mint price, but at the rate of 4*l.* 1*s.* an ounce; and that this rate is to be reduced gradually to 3*l.* 17*s.* 10½*d.* If Mr. Ricardo states the truth, a few questions are to be asked before any possible judgment can be made on his scheme.—

And the main question before which all others sink and vanish in importance, is this.—Is the circulation of the country to be left free; is the quantity of it to be accommodated to the full wants and demands of the community upon mere reference to those demands? Or is it to be *gradually* diminished, in order with less open and apparent violence to force the price of Gold down to the Mint price of coin and Bank Notes?

Till it can be known whether force and compulsion, as has been threatened, are actually to be used in the working of Mr. Ricardo's plan, all discussion of it is useless; and if it is to depend for its success, not upon its intrinsic merit, but upon the accessory fulcrum of legislative violence, I fear his plan will be as ultimately ruinous as the assumption of excess of our currency is demonstratively false, and the excess of our taxes is lamentably true.

In stating this, I by no means intend to express any disapprobation of any scheme for supporting the value of our paper circulation, by the Bank making its payments in bullion; provided such a scheme will admit a full and almost redundant circulation, which is essential to the progress of our prosperity. But in a reduced, stinted, and crippled circulation, I can look for nothing but decreased power of production, diminished exertion, abridged employment, increased pressure of taxes, and augmented beggary.

I have stated, and repeat the statement, that the present quantity of Bank Notes in circulation, compared with taxes, is not in the proportion of 1 to 2: whereas the

the proportion of Bank Notes and gold in circulation compared with taxes in 1790, were as 2 to 1.—There was of course a much greater facility of paying taxes in 1790, proportionately to their amount, than at present. In proportion as the amount of taxation has increased, the pressure ought to have been lightened by the facility of paying them; whereas from the diminution of the comparative circulation in which they are paid, and by the comparative deficiency of medium, their real pressure is considerably augmented. And what is the course we are now to take? Although the currency by which we pay our taxes is evidently deficient in comparison with former times, it is to be assumed without proof, that it is evidently excessive: and this alledged excess, but real deficiency, is to be made the basis for increasing the deficiency and adding to our distress and burthens.——

Now if it appears that there is no excess of currency to which the high price of Gold is attributable, and if it also appears that this high price may arise from our taxation,—does not this consequence directly follow, that as soon as exchanges naturally come round in our favour, by the cessation of loans abroad and the superior balances of our trade, that Gold will flow in as usual, and remain here as before the war, unless some other contravening cause prevents it?

And if this consequence should not follow, will it not be demonstrated that there is some other contravening cause; and that most probably, this contravening cause is taxation?

I cannot devise any other possible cause to account for Gold not returning to us, in the natural course of things, but *one*, viz.—that as we have banished it from circulation there is no real market for it, in proportion to the markets on the Continent; for if there is a large

market for any commodity, many will speculate in that market, but if the market is very small and contracted, it will not attract any speculation at all; and want of demand may produce a scarcity and high price, for failure of competition and of quantity of the article.

I believe, in a mixt currency of Gold and Paper, the Gold will never continue its circulation with paper, unless the Gold actually preponderates; as was the case before the war, when Gold in circulation was in the ratio of 25 to 10. Upon this principle, a Bullion Bank, if made on a scale sufficiently extensive, may be productive of much benefit; and if the Bank be obliged to purchase all Gold at all times at a price which allows for the operation of our taxation, perhaps we may obtain our object, and it will produce no difference in point of profit to the country, whether a great mass of Gold be preserved in depot in the Bank, or dispersed in circulation instead of paper.

A little Gold, like little learning, is a dangerous thing; it is easily speculated upon; easily exhausted; and its price easily affected. But a very large fund of Gold, which can defy all speculation and all temporary vicissitudes of exchange, and all casual domestic panics, is in proportion to its mass a fund of security.

When I see 9 millions, as Lord Castlereagh states, vanishing from circulation at mint price, in the course of the year,—the idea of establishing a Bullion Bank at mint price immediately, is an obvious folly. Establishing it at 4*l.* 1*s.* an ounce may be a fair experiment; and if adhered to at that price, without any contraction of circulation, but with an encouragement to the banks to answer the demands of the home market in discount with liberality, and an assurance to the public that this principle will in no case be departed from; it might lead to a result, which would enable us to form a correct

judgment

judgment as to the system to be permanently followed. But if this scheme is to be accompanied with measures of force and compulsion; if having never since the Bank Restriction Act had a circulation nearly so great in proportion to our taxes and income as before the war; and if having already produced great distress by the Restriction already impoliticly made, we persevere against fact and common sense, to reduce our currency still more, not that mint price may return by the natural course of affairs, but that it may be affected by further violence, by further distress, and a continuation of arbitrary measures; then, and in this case, we exclude ourselves from ever knowing the real state of things, and the real operation of events; and our judgments must be formed upon a forced and fictitious state of affairs, not created by the natural course of events, or the ordinary vicissitudes of the market, but by mere legislative violence, in defiance of their legitimate influence.

When I state, that from the effect of our taxes, reduction of the amount of currency will not lower prices, I mean to argue upon the general result naturally flowing from such a state of circumstances;—of course I mean to exclude from my argument that rapid depreciation in the price of goods already in the market, already contracted for, already in the warehouse, the magazine, and the barn, on which a sudden reduction of currency most disasterously operates. Because the investments of capital, by which those goods were produced or manufactured, were made when circulation was not reduced, and when the continuance of its amount and the accommodation resulting from that amount, was fairly and justly presumed.

I had suggested in an annexed paper, which I privately circulated, that the Bank should pay their Notes

at the market price; and a leading and additional reason, which induces me to think that obliging the Bank to pay their Notes at market price, will be the best means we can adopt—is this, that such a measure will coincide with the existing course of things; every thing will proceed as at present, without any alteration. The Bank Note will, as I have said, retain its value; and the Pound Sterling will represent Gold at 3*l.* 17*s.* 10½*d.* per ounce as at present, and be payable at that rate, at the option of the holder: accordingly, our foreign exchanges will not be affected in the slightest degree; and all contracts will be paid according to the market prices. If such an arrangement be once made, it may last for ever: no circumstance will necessarily change it; contracts will follow as they ought to follow—the natural variations in the market price of Gold, and not the forced variations which might otherwise take place, to suit partial views, or temporary emergencies, or licentious ingenuity. If we should be in a different situation from the rest of Europe, in consequence of the higher price of Gold in the home market, the natural result of superior taxation, we should not be making absurd and fruitless attempts to equalise that price to the price existing in other countries not similarly circumstanced; but should be employed in taking the only sensible means of producing a level, viz. in increasing our capital, extending our credit, lowering our interest, lowering our profits on mercantile transactions, perfecting our machinery, and improving our manufactures; always attentive to the great object of increasing our exports beyond our imports, diminishing our remittances abroad, and turning the balance of exchange in our favour. These are the only sensible and legitimate ways of controlling and lowering the price of Gold: not the contracting our currency, distressing our merchants, in-

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creasing our taxes, and withdrawing those means of credit and accommodation by which we have gained our power and superiority in the commercial world.

No one can be more aware than the writer of the evils which spring from over trading, which often results from too great facility in acquiring credit and currency: but it is an evil which has a tendency to cure itself. The circumstances of the late war, which broke up all the established channels of commerce, and turned legitimate trade into universal contraband, naturally gave rise to this evil: and the late opening of the East India charter, by which the great trading towns are at liberty to carry on commerce beyond the Cape of Good Hope, the increasing population, cultivation and wealth of the United States, and the invitations to new speculations which present themselves from the Spanish Provinces in commerce, now open to adventure, cannot fail, for some years to come, both to continue and encourage irregular trade. But I believe it will be found on consideration, a very false policy to limit our currency in order to stop adventures, which would only have the effect of transferring this new commerce into the hands of foreigners, and sending our capitals abroad in order to carry on a trade which was discouraged at home. *Utere velis, totos pande sinus.* This is the Motto, to the policy which our situation exacts us to pursue, not a mere cautious and prudential and pernicious system, which might square with the concerns of a petty state, where a single bankruptcy might spread a general ruin.

Before I conclude, I will discuss an argument which has recently made some impression.

This argument is to prove an Excess of Bank Notes in the market *at present*, and has been drawn from a parallel of the present state of things with the state of

of things in 1810. At that period, it is said, that our taxation had arrived at its greatest height; that prices in general were higher than at present; that the sums levied within the year approached 100 millions; that our taxes are now much diminished; and the general amount of the sums levied for the services of the year diminished much more; that the amount of Bank Notes outstanding was at that period only varying from 22 millions to 24 millions; and that even this sum was considered as excessive and as the cause of the price of Bullion, which was from 4*l.* 12*s.* to 4*l.* 15*s.* and also of the fall of Exchanges which were 15 per cent. under par. Whence it is warmly argued, that the subsequent addition of 3 or 4 millions to that sum of currency, is not only an unnecessary, but a pernicious excess.

This appears a very fair and strong statement, and certainly the facts of the statement are true. Whether the inferences are equally true, is another case, and it requires attention.

It was argued in 1810, that the high prices of all articles then existing, the high price of Gold, and the low price of exchanges, were attributable to *one* only cause, *the excess of our paper currency.* If that be true, then it follows, that the increase of excess in paper currency would have increased the prices of commodities, advanced the price of Gold, and lowered the exchanges *still more*; this consequence ought necessarily to have followed if the argument were valid: but the *consequence* which really has followed, is diametrically the reverse, for in the year 1816 and the beginning of 1817, when the Paper Currency amounted to 27 millions, an amount of nearly 4 millions above the medium amount of currency of 1810,—the prices of commodities were much lowered, the price of Gold fell at one time so low as 3*l.* 18*s.* 6*d.* per ounce, instead of 4*l.* 15*s.* which it rose to

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in 1810; and the exchanges, instead of being 15 per cent. under par, were in our favour. Now it is absolutely impossible that the same cause in pari materia could produce opposite effects. If the price of Gold had been raised by excess of issue, to an inordinate height, it could not have been lowered almost to mint price by a great additional excess of issue. If the course of our exchanges had been depressed by a superabundant quantity of paper, it could never have turned in our favour and risen above par, by a quantity of similar paper still more superabundant. Here then is a complete irrefragable demonstration, that neither the prices of Commodities, nor the price of Gold, nor the course of Exchanges, have been produced by excess of paper currency. And if the expediency or necessity of that increased quantity of currency in the market is still questioned, and if reasonable grounds can be shewn for that increase, it can no longer be consonant to truth to state it as an unnecessary excess of issue at all.

I will therefore beg leave to state the amount of Bank Paper in circulation in the five years to 1810 inclusive; and in the five years subsequent; and also the amount of the levies in the five years previous to 1810, and in the five years subsequent.

	Total Sums levied each Year.	Average Amount of Bank Notes each half Year.
1806	84,823,071	16,941,000 16,641,000
1807	84,226,947	16,724,000 16,687,000
1808	88,895,824	16,953,000 17,303,000
1809	94,747,704	18,214,000 19,641,000
1810	97,203,508	20,894,000 24,188,000
	449,897,094	
1811	99,109,777	23,471,000 23,094,000
1812	105,718,482	23,123,000 23,351,000
1813	113,303,529	23,939,000 24,107,000
1814	134,034,673	25,511,000 28,291,000
1815	131,268,720	27,155,000 26,618,000
	583,435,381	

From this statement there appears a natural, if not a necessary progress in the increase of currency, in proportion as the sum raised upon the country augmented. From 1806 to the end of 1810 inclusive, during which period 449,897,000*l.* were raised, the issue of Notes rose from 16,941,000 to 24,188,000; being a rise of 7 millions in five years. From 1810 to the end of 1818, during which period 583,435,000*l.* were raised, the issues rose to about 27,000,000, being a rise in five years of 3 millions.

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When one reflects upon these immense and incredible levies; when one considers that in 1790, before the war, the whole sums raised in the year were nearly 19 millions, and that at this period there was a circulation of 25 millions of Gold coin, and 10 millions in Bank Paper; can it be deemed an excess of currency, if Bank Notes were raised to 24 millions in 1810, and in consequence of further enormous levies, to 27,000,000 at the end of 1814? And is it not matter of astonishment that such stupendous payments should have been made with a circulation apparently so inadequate? In 1790 and before the war, our circulation in Gold alone exceeded the whole of the sums levied in the year by a fourth? In 1814, the issue of Bank Notes was not one fourth of the sums levied. Yet in the former case, there was no complaint of excessive currency; whilst in the latter, every inconvenience which is felt by the rise of prices, is attributable to excessive issues alone.

The result of this argument is, that neither in 1810 nor at present, were or are the issues of Bank Notes excessive; that their advance has originated in the great additional taxation and enormous levies since the commencement of the war; that this immense expenditure has produced great additional capital, great additional investments in agriculture, mining, manufacturing, trade, &c. &c. which make a large permanent circulation essential to the maintenance of our prosperity. It must always be considered, that the levy of a great additional amount, or a sudden great increase of expenditure, does not *at once* effect an increase of capital. The new additional permanent capital which is made on these levies and expenditure, follows gradually till the ultimate profit upon them becomes a fixed solid increase of capital.—Let Government spend 50 additional millions in a year:

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these 50 millions are taken from the existing capital, and the advance of such a sum will also require additional currency; but the profit made by the individuals concerned in advancing and spending these 50 millions, does not come into activity till one, two, or three years' interval. It seems then to follow, that the circulation now in the market not only ought not to be lessened, but to be increased and extended to the full demands of the whole increased capital of the country.

As the objection I have been answering had no respect to the circulation of the Private Banks, but merely to the circulation of the Bank of England, the Notes of which are or ought to be, the criterion of the issues of Private Banks, I have not adverted in my discussion to the state of their paper. Whether their paper has increased since 1810, when it was at its highest, I have no means of knowing; and can therefore make no founded remarks respecting them. It appears however, by the Report of the Committee of 1810, that their amount had augmented 3 millions in a short period anterior; and it is said they afterwards sunk considerably in amount.

It will be still insisted, that if taxes and levies have decreased, currency ought to decrease proportionably;—and if taxes and levies were the sole criteria for the just amount of our currency, the conclusion cannot be resisted: but the true criterion of the amount of a currency is not the mere amount of levies and taxes, but the amount of the whole income of a country, and its whole exchangeable value in labour, produce, and manufacture.—The Question then is, has the national income increased or decreased since the diminution of taxes and levies? Is it the tendency of levies and taxes to increase or decrease national income? or do government levies and taxes merely divert the existing income

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of the kingdom from its natural channels into forced channels? and will not national income, ceteris paribus, be increased by being employed in its natural channels, rather then in forced channels?——

If this reasoning is plainly unanswerable, when we are thinking of a measure or rule, for the amount of a currency, we must turn our thoughts to the income of a country in its most extended sense,—and as we must admit that currency ought to be augmented proportionably with income, whatever be the amount of debts and taxes and levies, we must also admit that a greater currency is necessary now than in 1809 or 1810, or in any other year, if our income on the whole is greater. A tax, or a levy is not an addition of income, but a diversion of it from its natural employment. Extension of capital, and credit and profits thereupon make and increase income, and income will increase more rapidly in proportion as the resources of industry are not diverted from their natural employment by state necessities.—When I first heard the argument for the diminution of our currency, founded on the diminution of levies and taxes, which has taken place since 1810, I was puzzled from not having reflected on the subject. But upon a short consideration, the fallacy became evident; by reflecting that the amount of income is the criterion for the amount of a currency, and that taxes and levies discourage the increase of income, and that in proportion as they cease, income will probably augment, and the want of currency augment also, all obscurity vanished. Income is naturally promoted by increase of currency, and increase of taxes is made more easy by it; whilst a decrease of taxes generally advances income, and by increasing income, augments the deamnd for currency.

It is said that the apparently small present amount of

 circulation,

circulation, compared with the amount existing in 1790, reference being made to the respective incomes of the two periods, has been compensated by many œconomical practices, and new modes of currency. And whence do these practices and shifts arise? Is it not from our currency being too scanty for the demands of the market, which forces trade to compensate the deficiency of that currency by ingenious substitutes?

It would be very entertaining in any other case, but it is lamentable in the present, to find many very sensible and intelligent men in other respects, puzzling themselves and their readers about the necessity of an invariable Standard and the steadiness of prices, which would arise were the value of Bank Notes, Coin and Bullion identified: and attributing all our embarrassments to the fluctuation of prices arising from the excess of Paper Issue.

If we ask, supposing this object obtained, may not the demand for Gold vary? they will say, that if the demand varies, the price will be kept the same by contracting or expanding the issues of paper.—But I reply, will not the quantity of the paper still vary in the market, and will not prices be affected by the contraction or increase of that quantity? will not there still be a fluctuation of currency and price as before? and which is most agreeable to the nature of things, which most conducive to productive employment and prosperity, to adapt a currency to the demands of the whole exchangeable value of a country, or to the variations of price in a single commodity?—And to this reply I never have seen any answer.—After all the whole turns upon this question—which is best for the country?—a variable price in Gold Bullion according to the demand of the Market,—or a fixt price of Gold Bullion purchased by alternate restrictions and augmentations of currency?

currency? And it seems that the former alternative is not only preferable in itself, but as it admits at all times a full circulation, it is on that account infinitely preferable.

It is said, if you limit the quantity, you raise the quality or value of a currency. What then becomes of the theory for diminishing prices by reducing its quantity? If you make nine Pound Notes, by scarcity equal in value to ten, how is price altered by that artificial scarcity?

But it may be said, by reducing our circulating medium 5 per cent. in amount, all one Pound Notes will be equal in value to Guineas.—I ask then what must be the consequence? At present there are 50 millons of Pound Notes to pay 50 millions of pounds sterling in taxes. We shall by this scheme have indeed 47,500,000 Guineas, but must be obliged to pay with them, not 47,500,000 Guineas as taxes, but 50 millions of Guineas.—Let us ask then how the nation is to be benefited by adding 2,500,000 to our taxes, in order to lower the price of Gold?

I hope that no person will suspect that from what is stated, the Author makes no distinction between a Metallic and a Paper Currency, a currency of universal and intrinsic value, and a currency limited to the home market and founded upon confidence: he is fully sensible of the folly of confounding things in their nature totally separate and distinct, whilst he is anxious that the existing circulation should not be impeached upon unfounded statements and false reasonings, and that destructive remedies should not be applied to evils which do not exist.

He is equally sensible of the folly of those arguers, who conceive that the Mint price and market price of gold must always be the same; because gold in

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coin and gold in bullion are of the same value and the same quality, and gold of any given alloy is always equal to the same quantity of gold of the same alloy.

Surely it might strike these arguers that such reasonings upon the sameness of the value of gold are mere identical propositions: the same is the same: equals are equals: a quantity of gold of any given purity is equal to the same quantity of the same purity. All these are identical propositions wherein the predicate and the subject is the same. But what have these assertions to do with price? which is the result not of comparing a thing with itself or its equal, but the comparison of any given article, whether bullion or coin or corn or cloth, with other articles.

The purchase of a lump of gold with an equal lump of gold, or of a guinea with a guinea, is a mere nullity: it is no purchase at all. Gold, or any other metal when raised from the mine and purified, converted into Coin, Dollars or Doubloons, is purchased with other articles deemed by the proprietor equivalent, and though one piece of gold of any given purity must be always equal to another piece of gold of the same purity and weight, it does not follow that they will be of the same value when measured by other articles: when in the same day and the same place bullion will be often dearer in the morning than in the evening, like three per cents. and will follow the demand of the market. We have suffered enough already by the misconceptions on this head—even Mr. Locke was deceived by it; and by carrying this reasoning too far, a large silver coinage was issued, which in a few years disappeared with a loss to the Nation of I think 2,700,000*l*.—The late Lord Liverpool made an attempt on a similar principle in regard to a copper coinage. As soon as it was issued, copper rose in value

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17 per cent. and his coinage disappeared. We made something of a similar attempt in 1816, and 4 millions and half in value of Sovereigns and half Sovereigns were thrown into circulation, which in a few months disappeared likewise, great part of which at present circulates in France recoined under the name of Louis. If we adhere to this absurdity, of adopting identical propositions as logical deductions, and acting upon them in our measures for restoring a metallic currency, we shall merely repeat the same blunders and incur similar losses. And if any man supposes that he can fix the value of gold, by saying gold is equal to gold, let him merely try his reasoning powers upon any other commodity, and then his prejudices about gold being no longer in his way, the absurdity of his principles will flash him in the face.

I do not think it a more absurd problem for solution, utrum chimera Bombycinans in vacuo possit comedere secundas intentiones, than the problem—Whether the price of gold ought to be regulated by the laws of identical propositions.

It is understood that silver of $\frac{1}{18}$ alloy, forms the deposit of the Bank of Hamburgh; and Bank silver is always Bank silver, and it has a fixed denomination of value in banco money. But though that denomination of value remains fixed, and the price of banco money, remains nominally fixed, yet the silver when taken from the bank, sells not at banco price, but at market price. Whilst the silver remains in the Bank, its price is fixed; when taken from the Bank, its price varies in the market according to demand, and commands a greater or less quantity of the coin for which it is sold. The Bank itself takes in silver at one price, and issues it again to the owners at a higher price, and the owner of course never takes his silver out of the Bank but when the

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course of the market enables him to make a profit. The Bank charges for lodgement and assaying, from 2 to 2½ per cent.

The price of Coin may be fixed by a Mint Indenture, and confined to home circulation, as the price of fine silver may be fixed by the Hamburgh Bank, so long as it remains in the Bank. But when coin by melting becomes bullion, or when bank silver is taken from the Bank of Hamburgh, and gets into the market, they become subject equally to the variations of the market, and follow the course of demand, and rise and fall in price accordingly.

I have thus tried to suggest the errors which have appeared with regard to the nature of our money unit or standard—the supposed excess of the issues of Bank Notes—the argument which has been induced from the excess of currency, at *present* over its amount in 1810—and from imagining identical propositions to be logical distinctions.

I have also suggested, that the real cause of increased prices of bullion, as well as of other articles, is attributable, not to the excess of currency, but to the excess of taxation.

I have suggested, that the remedies hitherto proposed to bring back our currency to a metallic state, are ineffectual or pernicious—and I have submitted, that the best line to take under existing circumstances, is to follow the course of the market, and the current order of things, without attempting either absurdities or impossibilities.

If a system for contracting our currency, for the sole purpose of forcing the price of Gold to Mint price, is to be inflicted upon the nation, upon the principle that the present currency is excessive in amount, at least let the fact be proved. If upon examination it is actually superabundant,

perabundant, retrench it; but if it is actually deficient near a half in comparison with the proportion of other times, let us not add to the evil and pressure of the existing deficiency, and act as if we resented the detection of false views and bad logic.

Above all, I deprecate a starving system, which has already produced great distress, lowered our funds, augments the necessary amount of the loan, increases its interest, and which has thrown a gloom over our affairs, and spread an universal terror in the market.

Having drawn my observations to a close, I beg leave to suggest that possibly it is not necessary to make a decided choice between the two alternatives which I stated in the outset, but to act in unison with them both. To regulate on the one hand the amounts of the circulation, by the wants of the income of the country taken in its most extended sense; and to support its value, by controlling it by the market price of Gold, properly regulated.

We must recollect, that controlling our currency by the mint price, or by the market price, must equally produce fluctuations in amount and fluctuations of price. Steadiness is merely nominal: standards will vary as the articles vary to which they are standards, though nominally they may appear invariable. The shore seems to recede whilst the vessel sails away: but whether the shore or the vessel be fixed, the variation in distance will be the same.

Let us also recollect, that if we were to regulate the amount of our currency in Coin and Bank Notes, by the proportion of currency to taxes and income, which existed in 1790, our currency now, if measured by taxes, ought to exceed 100 millions, and if measured by income, 90 millions. So much for the excess of our present currency.

Let us further consider, that if our taxes were now all to be paid into the Exchequer at once, and on the same day, there would not on that day be left a single shilling in circulation for the wants and transactions of the country: whereas if a similar regulation had been in force in 1790, though all the taxes had then been paid in on the same day, there would have remained a greater sum in circulation than the whole amount of Bank Notes at present outstanding, and which has been so absurdly stated as a grievance and an excess.

Let us also reflect, that in 1790 our taxes were in proportion to our income as 1 to 5; whereas at present they are only in proportion to our income as 1 to about 5⅓; and if taxes seem to press upon the kingdom so much more heavily at present than in 1790, may it not arise from the facility of paying them being diminished by the comparative deficiency of our currency?—If our currency were extended to the same proportion with our income and taxes, as we enjoyed in 1790, and if a more judicious repartition of our taxes were made, might not the Nation hope to enjoy as much ease in every respect as before the war?—I know not why the country is to be sacrificed to a pernicious and chilling system, founded on the assumption of an excess in the issue of Bank Paper, which is demonstrated to be unfounded, and a system too which is utterly incompetent to produce its object? When I advert to the comparative burthens and abilities of the country before the war and at present, according to the views I have taken, I cannot but indulge a gratifying hope of increasing prosperity and diminished incumbrances, provided the government will continue uniformly an encouraging and protecting policy, and not suffer to be introduced a principle of impoverishment

under the false idea of increasing security. When the Nation is made to understand the question, and to feel that diminution of currency will not tend to bring back our gold, but will most certainly augment the pressure of our taxes, and diminish the powers of production; it will not be so dead to its interests as not to deprecate a remedy, which can only aggravate the inconveniences it pretends to cure.

THE AUTHOR.

APPENDIX.

THE DANGER OF FORCING A RETURN TO *CASH PAYMENTS*,

BY

The Bank:

AND

THE EXPEDIENCY OF SOME NEW ARRANGEMENT

OF

THE CURRENCY.

THE real criterion of the necessary quantity of a circulating medium for a great community, is its adequacy to circulate the whole exchangeable, annual value of all its labour, ingenuity, productions and imports, and to support the payment of all its taxes and of all its expenditures in war. And the relaxation or increase of demand for such medium, is the measure of its deficiency or excess.

Our Circulation was originally purely Metallic. But when it was found impossible to procure any longer a sufficiency of the precious metals, for answering all the demands of a great community, increasing rapidly in wealth and produce, and in requisition of supplies for a war expenditure,—a *second system* was introduced; and a Bank Paper Currency was engrafted on the basis of Coin, which formerly constituting the whole, was now only to form a third of the currency. But to give this currency the appearance of perfect solidity and intrinsic value, the Bank Paper was made convertible into Coin, at the option of the holder; and as it was hoped the public would prefer the Paper to Coin, it was conceived, that two thirds of the currency

rency might be always kept in the market, and the amount of the circulation be doubled.

Whilst, however, this system acted with a double power to one purely metallic, and entirely of intrinsic value, it was controuled in its amount, *not by the real wants and demands of the community, which is the only true controul*, but by the proportion necessary to be kept between Bank Notes and Coin—a principle necessary indeed to the system, but totally irrelevant to the general theory of a currency. Whenever, therefore, the kingdom might be alarmed and terrified from failures within or dangers without, by which an unusual demand for Coin, the valuable part of the medium, should be created, it would become necessary, for the support of the system, to withdraw Bank Notes from the circulation in a double ratio to the Coin withdrawn: and hence it was evident, whenever a pressure continued for any length of time, and the demand for Coin increased with the pressure, the Coin would be exhausted, and the system stop. Thus the controuling principle of the system, being formed in direct opposition to the theory of the currency, became its destruction. This peculiar and essential characteristic proved to be not its perfection, but its vice: in prosperity it had no operation at all; in adversity its activity was fatal.

The stoppage of this mixed system of currency took place in 1797, when another system of Paper Currency was resorted to, not convertible, at pleasure, into cash, but founded on the ultimate solvency of the Bank, by its own funds, for the issues made to individuals, and by the funds of the nation for the issues made to government: and this system has carried us through the war successfully, and exists at present.

The two systems, the late and the present one, are both founded in mere *confidence*, their common parent.

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The first presumes, that the Bank Note will be always convertible into Coin, at the option of the holder; though it is evident that only one-half of the circulating medium is actually represented by gold. The last presumes, that the Paper Currency, as long as it circulates, will keep that value in the market it was originally issued to represent, though not actually convertible, at pleasure, into its archetype; and that, should the Currency, by any fatality, cease, all the outstanding Notes will be ultimately paid, in real value, by the property and funds of the Bank, and the funds of Government, which are pledged for their amount.

The danger, which was supposed to attend the former system, was from the disproportion which might arise between its component parts, by which the advantages held out from its power of augmenting the amount of currency, was compromised and lost,—whilst the advantage of the present system is, that being unattackable by distress within or danger without, it can be adjusted to all the ordinary demands of peace, and all the exttraordinary demands of war; and the only danger attributable to it, is depreciation by excess of issues.

We examined the controul on the former system, and found it vicious: let us examine the controul on the present system, and see whether it be either vicious or inadequate.

1. The Bank, which issues the currency, cannot, by any possibility, *force* any of its Paper upon the market.

2. It never makes an issue but upon a previous demand: and the Directors have the eyes of the Nation and Parliament upon them, always watching their conduct, as well as their own interests to guard them from indiscretion.

3. It charges an advance of 5 per cent. upon all

issues to individuals, and never makes advances to Government but upon parliamentary securities.

4. Its advances to individuals is by discount on bills of short dates, which there is just reason to believe represent actual value and real commodities.

5. Its Notes being in themselves of no intrinsic value, and only of value in the act of parting with them, when not wanted for the purpose of circulation, are of course immediately withdrawn from it.

6. The Bank has tests to shew whether the quantity of circulating medium is too defective or too abundant.

For a numerous demand for the discount of good bills, is a test that money is scarce, and the market wants a fresh supply—whilst the paucity of demand, is a test that there is plenty of money in the market, and that discounts can be more easily and cheaply procured elsewhere than at the Bank: so also the cessation of demand from Government for advances upon parliamentary securities, is another proof that money is plentiful, and that Government can easily dispose of their securities in the market.

7. Whenever the return of Notes upon the Bank is greater than the demand for new issues.

8. The Bank has every possible inducement to prevent every excess of issue, for excess of issue, as it would depreciate their Paper, would also depreciate their *profits* proportionably, and would, ultimately, lead to the discredit, and by the discredit, to the extinction of the system.

Such are the guards by which the present system of currency is ensured from excess, which are formed on three principles—the private interest of the purchaser of the Notes not to call for any advance he is not obliged to demand—the private interest of the Bank not to compromise their institution, by an excess of issue,

issue, which cannot profit and may be destructive; and certain infallible tests, by which the proportion of the supply of currency to the wants of the market, may be known, adjusted, and balanced.

This system of circulation has been now in operation for 22 years, and has enabled us to meet, and overcome, every embarrassment and difficulty which continually endangered the community, with the most complicated aggravation of pressure within and without, nearly throughout the whole period; and the system has so faithfully discharged its office, that the Pound Bank Note, which was at first issued as equivalent to the Gold Soveriegn, preserved its relative value so strictly, that the Pound Bank Note, the Gold Sovereign, and Gold Bullion of equal weight to it, were almost at the same price in the market in 1815 and 1816, as when the system begun,—which affords a complete demonstration, that the variations in the price of Gold Bullion during the war, did not originate in any depreciation of the Bank Note; for if that had been the case, and depreciation had originated from the quantity of Bank Notes in the market, the depreciation would have increased as the quantity of Bank Notes increased, and when the quantity was the greatest, the depreciation would have been also the greatest, which is the reverse of the fact.

It is still, however, conceived by some, that the present system is vicious, by excluding Coin from common currency, and by the Bank Note not being immediately convertible into Coin, and by the excess of issues which it is said has taken place, and the consequent depreciation of Paper, notwithstanding demonstration to the contrary.

Let us then examine the process which is to be taken for reviving our former convertible system.

It has happened, since the commencement of the present system, that Gold Bullion has risen in price above the Mint standard, which standard price the Bank Note represents; and till it can be permanently secured that it shall not exceed Mint price, Coin cannot be brought into circulation. How then are the advocates of the old system to proceed?—

In as much as our Coin and Bullion are of the same purity, and as the Coin is limited in circulation to a maximum of price, and Bullion is not limited,—and as Coin, when Bullion exceeds the maximum, will ever be melted, in order to become Bullion, it follows, that a principle must be adopted and enforced, of keeping down the price of Bullion to the maximum set upon Coin.

Now a circulation formed upon this principle, is an evident absurdity.

The criterion for the amount of the Currency, is what has been above stated, viz. the quantity necessary to answer all the demands, and circulate all the income of a community; and the deficiency or excess of quantity, is measured by the increase or relaxation of demand.

Whereas the criterion assumed under the system which is to be established, is the quantity of Currency which will keep the Market price and Mint price of Gold at par.

Our present Currency being founded upon a true theory of supplying the wants of a community, admits the regulations which have been stated, for controuling its excess without prejudice to the system; because they are all wisely adjusted to the nature of the subject they are intended to controul.

But the arbitrary fixation of a maximum on Coin, and regulating the quantity of a circulating medium,

so as to keep the Market price of Bullion, which is ever fluctuating, within that maximum, is totally irreconcileable to the true principles of a currency, and is the application of a rule which has no natural connexion whatever with the subject it has to govern.

Let it be asked of any common logician, whether there is any connexion between the necessity of supplying a circulating medium proportioned to the whole income and transactions of a wealthy community, and the identity of price between Coin of a fixt value and Bullion of a variable value. It is evident that any attempt to prove such a connexion must be preposterous.

An argument has, however, been made in this manner. Coin and Bullion are of the same purity: equal quantities of each must be therefore equally valuable: but if Coin is limited to a certain standard-price, and Bullion is not, in as much as Coin cannot follow the price of Bullion, Bullion must be made to submit to the price of Coin; otherwise, two pieces of Gold, which in weight and purity are the same, would not be equal in value to one another; which is absurd. Now the necessity to reduce Bullion to the price of Coin, arises from the circumstance, that, as Paper represents Coin, it will not also represent Bullion, unless Bullion be kept at the exact price of Coin: for if Bullion is allowed to be dearer than Coin, Coin will be melted to obtain the qualities and price of Bullion: and then Coin being driven from circulation by the superior value of Bullion, Paper will be no longer convertible into Coin; which would be ruinous. As, however, reducing the quantity of circulating medium will raise its price, and consequently the value of Coin, a proportionate reduction of that medium will equalize the prices of Coin and Bullion. Q. E. D.

Such is the pretended demonstration which has been

made, by introducing a system of *force*, contrary to the nature of things.—But what has it to do with the necessity of furnishing a circulating medium adequate to the demands of the whole amount of the income and transactions of a great community? What connexion is there between the two propositions above stated? How does this demonstration refute the absurdity of measuring the quality of a circulating medium necessary for the richest and most active community in the universe, by the necessity of reducing the Market price of Bullion to the Mint price of Coin. What relation is there in nature between the two propositions?

What then, it is asked, is to be done?—It is submitted, that the best way to obtain truth is first to discard what is evidently false. Quit an arbitrary and inapplicable measure, and embrace a system dictated by existing circumstances and natural reason.

It is plain, that to form our whole circulation exclusively of the precious metals, is impossible, and that some system, not of mere intrinsic value, but of confidence, is to be resorted to.

It is plain, that to circumscribe a circulation by the identity of price between Bullion, Coin, and Bank Notes, is absurd; since there can be no connexion between things limited and things unlimited in value. The principle has no analogy to a currency. The very apprehension of its adoption has produced great embarrassment, and the enacting it might involve us in distress.

As many persons, however, express alarm at having no basis to our currency of intrinsic value, but the funds of the Bank, (which are not all convertible into cash on demand) and Government securities, (which are in the same situation) though both ultimately adequate to all outstanding issues of Bank Notes, some

new

new arrangement might be made, which would present a metallic basis of intrinsic value, payable on demand, but at the same time would leave the currency governed, as to its quantity, by the real wants of the community, and not by the forced par of the Mint and Market price of Gold.

Two plans suggest themselves. The first is, to make Gold Coin circulate at the market price of Bullion,—the prices to be fixed from period to period at the Royal Exchange—the duration of each period to be limited, as may be found adviseable, and the prices to remain fixed during each period.

The second is, to enable the Bank to pay in Bullion all demands for exchange of their Paper if above the sum (for instance) of £.25, at the market price of Gold.

Bank Notes should circulate as at present, representing Gold Coin, at the standard of 3*l.* 17*s.* 10½*d.* per ounce, which is the legal standard, and which they were issued to represent, and do represent.

By either of these plans, the Bank conld always afford to supply themselves and the public with any quantity of Coin or Bullion, because they could not lose in the purchase.

And the necessary quantity of circulating medium could be always measured by the criteria above stated, and which are now acted upon; and would not be restricted by the absurd necessity of contracting or increasing the issues of Bank Notes, by the variations of price in one single commodity.

The first plan would be most agreeable to those who wish to re-introduce Gold Coin into circulation.

The second, to those who prefer a Bank Note circulation founded upon a basis of intrinsic value, payable on demand.

If

If neither of the above plans appear eligible, it is at least hoped that no Plan will be adopted for unnaturally *forcing* the Market price of Bullion to the Mint price. If the Market price ever descends naturally, by the ordinary course of events, to the Mint price, and there continues, the plans suggested admit the due operation of such a state of the market as of every other. But any forced system will soon break. Let the circulation be limited by real demand, not by legislative violence. A forced restriction of currency is as much against the natural order of things as a forced issue. The latter leads to depreciation and discredit: the former to stagnation and non-production.

If there is still a strong predilection for our former system, let us at least give sufficient time for the experiment to be tried, whether the ordinary process of events will bring things round in such a manner as that the system will, as it were, resume itself. But making use of *Parliamentary force* to bring about any system, against the natural tendency of affairs, savors too much of the obstinacy of prejudice: and when it is considered that all our manufacturing and commercial investments, speculations and transactions, have been formed upon the presumption of the continuance of an extensive circulation, and of great pecuniary accommodations, might it not be deemed something like a gratuitous breach of faith, if all the valuable concerns of a most important class of individuals were sacrificed to the support of a sophism, and the best interests of the nation endangered, in order to conjure a commodity into a Coin, and to transform a perpetual fluctuation into an invariable standard.

Perhaps from the variety of opinions and prejudices public and recorded, and from the supposed difficulties on the subject of currencies, by which the ablest men have

have been sometimes puzzled and perplexed, it may not be easy to obtain any early decision, as to what shall be the final system, in which the country is to repose.

It is hoped, however, that the public mind be satisfied upon one point, that the Parliament does not mean to act by arbitrary force; that it will not cramp circulation, merely to lower the market price of Gold: but let the Bank be desired to act with the same unfettered discretion, as hitherto, so that the merchant may not be driven to bankruptcy by a false theory. Let the public mind be set at rest. Let it feel assured, that the protecting and fostering hand of Parliament will aid and encourage the genuine speculations of commercial and manufacturing ingenuity, and that the same accommodations will be continued to uphold, as were supplied to induce the investment of capital. Till such an assurance be made, all efforts must be contracted, all exertions paralysed, confidence must shrink, and general prosperity languish.

THE END.

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